Faith and Foreign Aid: 
The Electoral Connection and European Aid Allocation

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Abstract:
In this paper we study the effects of religion – specifically Islam – on the targeting of foreign aid. The vast majority of foreign aid originates in the West, where apprehension toward the Muslim world increases simultaneously with greater interactions and interdependence. This phenomenon is particularly acute in Europe, with its Muslim population of over 14 million. Additionally, fears of terrorism continue to rise; for Europeans, Islamic fundamentalists live not in distant countries but next door. Finally, with Turkey as the largest European-Union candidate country, aid should disproportionately flow there. We argue that these factors should have led to greater foreign-aid targeting of Islamic countries, controlling for other variables traditionally considered to be driving foreign aid donations. To estimate the religious selectivity of foreign aid, we employ a Prais-Winsten model on data from the new Project Level Aid database, which includes more than 500,000 development projects from 1970 to 2000. Among other conventional controls, we control for oil exports and use multiple measures of “Islamic-ness.”. These findings will be important to learning how non-traditional recipient characteristics drive the allocation of foreign aid.
Despite the traditional use of overseas aid to achieve foreign policy goals, in recent years foreign aid appears to be given increasingly for altruistic reasons; donor nations seek to improve the economic situation of other, less developed nations. However, the incentives to use foreign aid as a policy tool remain great. Foreign aid is a means to exert influence on recipient nations in a less intrusive manner than other alternatives. This soft power is particularly appealing to nations which are strong economically but do not have the military strength to credibly achieve their foreign policy objectives.¹ Countries may be using foreign aid as a means to achieve their foreign policy goals.

Critics of bilateral aid agencies often scrutinize the motives behind foreign aid donations. Dollar and Levine (2004) have argued that, although many agencies are focusing their donations to well-governed, impoverished countries, many are not. This indicates that donor governments must be basing their decisions, at least partially, on other factors.

In this paper, we examine whether European nations are basing their foreign aid lending decisions on factors other than poverty. We examine whether European donors are using development assistance as a foreign policy tool. Specifically, we argue that European donors are channeling disproportionately large sums of money to Muslim countries due to these countries’ strategic importance.

**Theory**

The jury is still out on exactly why states give foreign aid. Most studies argue that foreign aid is principally motivated by donor state interest, whether for the sake of maintaining colonial ties, strengthening international economic relations, or providing support to allies in the

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¹ For a discussion of soft power, see Nye, 2004.
current global conflict (Maizels and Nissanke 1984, Dollar and Levine 2004). A few dissent. Lumsdaine (1993), for instance, argues that foreign aid is driven not by donor selfishness, but selflessness. Noel and Therien (1994) also disagree, pointing out that as domestic social welfare institutions become more social democratic, levels of foreign aid correlate with the social democratic nature of domestic social welfare institutions.

In spite of these dissenters, the assumption is frequently made that policy makers want to use foreign aid for strategic (and therefore self-interested), rather than altruistic purposes. Milner makes this assumption, but using the logic of principal-agent theory proposes that multilateral foreign aid giving occurs as politicians attempt to resolve disagreement in what policy makers want to do with foreign aid with what voters want (Maizels and Nissanke 1984, Dollar and Levine 2004). Voters, according to Milner, are interested in foreign aid as a development tool, not a political or economic one. In order to ensure a budget for bilateral (strategic) development aid, politicians must commit to multilateral aid. Milner addresses a different question than we do ("why multilateralism?" as the title asks), but uses a similar set of tools and assumptions. Politicians and bureaucrats may not want to use bilateral foreign aid in the same way that voters prefer it to be used. But at the same time, voter preferences matter, especially when they can acquire the information necessary to sanction politicians for acting contrary to those preferences.

We assume that some voter preferences are constant. For example, voters are consumers, and as consumers, they prefer low prices on commodities like oil. Voters are also concerned with immigration, particularly immigration from non-European neighbors. The recent spates of religiously-motivated violence in Europe have multiple historical precedents; for example, France first faced the headscarves in public schools issue in the mid-1980s, along with much controversy (and some violence). Protests, particularly violent ones, bring the voter's
attention to the existence of a significantly different population making demands that appear to abrogate traditionally held views. The European demand for low-cost labor virtually guarantees that such outbreaks occur, as well as the counter protests by nationalist, right wing parties opposed to immigration (and often foreign aid).

European nations also have an interest in promoting Middle Eastern peace, and European voters, because of the proximity of the Middle East, may be concerned that failed peace may boil over into their wealthier neighbors. As Herve de Charette, a former French foreign minister said in an interview with *Les Echoes*, “when violence returns to the Middle East, sooner or later it will show up in Paris.”² The prevalence of job-seeking Muslim immigrants (especially those prone to religiously motivated violence) may contribute to an acute awareness that Europe cannot be completely isolated from problems in the Middle East.

**Foreign Aid in PA Theory**

Before continuing, we examine the principal-agent (P-A) framework, especially in terms of parliamentary democracy, the dominant form of government in Europe. First, a principal, either for lack of time or expertise, conditionally delegates the authority to perform a task (with corresponding accountability) to an agent (Nielson and Tierney 2003, 2005, Muller et al 2003). In practice, the act of delegation often occurs multiple times, as one agent becomes principal to another agent. Principals face two different problems: adverse selection and moral hazard. Adverse selection occurs when the principal, lacking information, selects the wrong agent for the job. That is, the agent either lacks the expertise or experience to adequately perform the task the principal would see performed. On the other hand, moral hazard occurs when the agent,

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possessing the proper expertise, training or experience, makes a decision different from what the
principal would prefer. While both of these problems lead to outcomes that the principal would
prefer to avoid, their solutions are temporally and institutionally distinct. Preventing adverse
selection requires an ex-ante approach (making sure the right agent gets "hired") while avoiding
moral hazard requires an ex-post (ensuring that your "good" agent does what you want him or
her to do). One solution favors efficiency while the other favors a preventative approach
designed to ensure that fewer mistakes occur. Parliamentary democracy solves adverse
selection, while presidential democracy solves moral hazard (Muller et al 2003). Naturally, they
do not provide perfect solutions to either problem, and each has some institutions designed to
prevent the other type of failure. They might even be viewed as a trade-off, as it seems that the
institutions most often used to solve one problem cannot be fully implemented while institutions
to solve the other are in place (Lupia 2003).

Several scholars have argued that parliamentary democracy most closely models the "will
of the people" (Bryce 1921, Lijphart 1999) particularly while avoiding the deadlocks associated
with the checks and balances of presidentialism. Because preferences and tasks are passed along
the delegation chain by agents who are often accountable to a single (though not necessarily
unique or individual) principal, delegated tasks are more likely to reach the end of the delegation
chain with a minimum of manipulation. Along the way, principals have various tools for
ensuring that their agents may be held accountable: voters may refuse to re-elect an "out of line"
parliamentarian, parliamentarians may offer a vote no confidence in a current cabinet, and
cabinet ministers hold the reins on bureaucrats' jobs and advancement. Most important along the
delegation chain to ensuring that each agent fulfills the wishes of his or her principal is that the
principal has some source of information by which to assess the performance of the agent (with
some degree of accuracy--perfection is unnecessary; heuristics and other cognitive mechanisms make the job possible) (Lupia and McCubbins 1998, Milner 1996). The news media and NGOs (especially in the foreign aid or development context) fulfill this role (Milner 2006).

Foreign policy making, specifically foreign aid giving, occurs at the end of a long chain of delegation. Because of time constraints and lack of expertise, voters (who are the “ultimate” principals) conditionally grant the authority to make political decisions in their name to politicians. In presidential systems, this power is shared between the executive and legislative branches. In parliamentary systems, both the executive and parliamentary powers reside with the parliament, allowing them even more room to act at their discretion.

The Foreign Aid Decision-Making Process

If, as Milner notes, constituents prefer development assistance be given based on poverty rather than politics, the assumption that politicians base foreign aid donation decisions on strategic interests might seem unreasonable, especially when assuming that politicians’ primary concern is reelection (Milner 2006). By the very nature of the politician/constituent relationship, the agent is afforded some breathing room in the execution of his or her duties. The voters chose the agent because they lack the time and expertise necessary to make each decision. With this albeit somewhat limited freedom to act, politicians will do what they can to ensure reelection. It is precisely this concern that drives politicians to base these donation decisions on strategy. Although foreign aid may not be a primary concern to voters during an election (which is why they have a measure of freedom to make decisions in this area), it can be used to forestall issues that may drive voters away.
Further down the delegation chain are bureaucrats who make many of the decisions regarding foreign aid. Bureaucracies look to these elected officials for funding; bureaucrats will attempt to fit the actions of their individual bureaucracies to the general foreign policy goals of policy makers in order to gain favor and increased funding. Bureaucrats are looking to show the value of their respective bureaucracies in achieving broader policy goals.

Immigration is an example of an issue where governments may use foreign aid to exert influence. As immigration is a hot-button issue for European voters, it is consequently an important concern for European elected officials. As policy makers make dealing with immigration a policy priority, the individual aid agencies will seek to use foreign aid to address the problem. As much of the commotion about immigration deals with apprehension towards Muslim immigrants, these aid agencies may favor Muslim countries with three goals in mind. First, the payment may essentially serve as an intergovernmental bribe, with the tacit agreement that the recipient country must address the immigration issue from its own side. Second, the hope may be that fostering growth in these developing countries may reduce the flow of immigrants heading to Europe in search of vastly better living standards. Third, it is unlikely that the flow of immigration towards Europe will be completely stanched, nor would this be helpful for Europe’s economies, but increased standards of living in the home countries may produce a more educated and skilled group of immigrants that join the labor force.

Terrorism is another example of an issue that policy makers may concern themselves with to prevent tragedies for which voters may hold policy makers accountable. As this study does not examine post-September 11th lending, it may be the case that the voters were not overly concerned by the threat of terrorist attacks. Nonetheless, policy makers were still aware of the threats posed by terrorist attacks, and specifically terrorist attacks from the Muslim world.
Muslim terrorists had already shown themselves to be a threat in the bombings of UTA Flight 772 and Pan Am flight 103, in addition to other events such as the Israeli hostage situation during the 1972 Olympics in Munich.

European leaders are keenly aware that the Muslim world’s perceptions of Europe are extremely important to European security. For Europeans, Islamic fundamentalists are not living in distant countries; they might be living next door. After all, the September 11 hi-jackers were members of an Al Qaeda cell operating out of Hamburg, Germany. The large Muslim immigrant populations in Europe are a constant reminder of the importance of the Middle Eastern region to Europe. Roland Dannreuther points out that these concerns have been driving European leaders to increase their diplomatic influence in the Middle East (Dannreuther 2004).

Rather than wait for terrorism to become an issue to voters, policy makers made these potentially troublesome states foreign policy priorities, which, as such, also received particular attention from the European aid agencies for essentially the same two reasons as above. First, providing money to the leaders of these countries may make them better able to deal with the problem within their own borders before it can spread to Europe, and second, economically contented citizens are less likely to cause trouble (Bates 2001).

Issues such as these make foreign policy in the Muslim world particularly important to European officials, even if voters are not acutely aware of the strategic importance of the region. As elected officials make the region a policy priority, bureaucrats in the respective aid agencies will follow suit, sending more aid to these countries to make it clear that their agencies have a valuable role to play in achieving the officials’ policy objectives.

We expect this phenomenon of disproportionate lending to Muslim countries to be particularly acute in the post-Cold War era, where foreign aid is no longer needed to prop up
anti-communist regimes. Although foreign aid was clearly given for strategic reasons during the Cold War, the strategies of Europe and all other Western nations changed following the breakup of the Soviet Union. Foreign aid is no longer needed as a bulwark against the spread of communism and can now be used to achieve other goals.

Methods

Using data from the PLAID database, a collaboration between Brigham Young University and the College of William & Mary, we have assembled a dataset containing all bilateral foreign aid from European members of the OECD (Austria, Belgium, Denmark, Finland, France, Ireland, Italy, the Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, United Kingdom, Germany, Greece and Luxembourg) during the years 1980 to 2000. Using these data, we generated a variable indicating the total bilateral aid each country has received from European donors during this time period. We obtained our data on religious demographics from the World Christian Database, which provides both the total population in a given country and the percentage of the overall population for over fifteen major world religions. We obtained our controls from the World Bank’s World Development Indicators databank.

As a variant measure for our key independent variable, we used the religious data from the World Christian Encyclopedia to generate a new variable indicating whether more than 50% of a country’s population is Muslim to use as an alternative. This new variable makes the most sense to us theoretically, because the question of whether or not Europe gives disproportionate

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3 Although PLAID is not yet publicly available, the site can be found on the web at www.wm.edu/plaid
4 The World Christian Database is produced by the Center for the Study of Global Christianity at the Gordon-Conwell Theological Seminary, and is available online at http://worldchristiandatabase.org/wcd/home.asp
5 The World Development Indicators is available online at http://devdata.worldbank.org/dataonline/
amounts of foreign aid to Muslim countries depends heavily on European perceptions. A country with a two percent Muslim population should not appear to differ much from a country with a ten percent Muslim population, but the presence of a Muslim majority will make a difference in the eyes of European policy makers, although we still feel that countries with large Muslim populations will be considered important.

Likewise, we included several control variables that should help us isolate the effect of religion on the total donation amounts. We included general factors that would affect the amount of aid a country receives, such as population size and gross domestic product, as well as other controls measuring the health, education, and available infrastructure within each recipient country. By attempting to control for the level of poverty within a country, we hope to show that strategic concerns are, at least in part, determining where this money is going. We also created a post-Cold War dummy to indicate whether or not the amount of aid received increased after the end of the Cold War.

We likewise included a variable indicating each recipient country’s total oil exports. Although many Muslim countries have large oil reserves and may be considered strategic on the basis of energy exports alone, we believe that oil is not the sole factor in determining these donating nations’ behavior, and we will attempt to show that by controlling for the effect of oil.

Table 1: Summary Statistics.

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<tr>
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<th>Minimum</th>
<th>Mean</th>
<th>Median</th>
<th>Max</th>
</tr>
</thead>
<tbody>
<tr>
<td>Muslim Majority</td>
<td>5643</td>
<td>140,000,000</td>
<td>66,300,000</td>
<td>2,320,000,000</td>
</tr>
<tr>
<td>non-Muslim Majority</td>
<td>1788</td>
<td>10,000,000</td>
<td>36,000,000</td>
<td>6,890,000,000</td>
</tr>
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</table>
Using a simple comparison of descriptive statistics, we note that countries with Muslim majorities have a higher minimum, mean, and medium than their non-Muslim counterparts. Countries with non-Muslim majorities have a much higher maximum, but that is to be expected as we have not yet controlled for population or GDP where countries like India or China clearly have an advantage. Nonetheless, even when not controlling for other factors, Muslim countries receive, on average, more foreign aid from Europe.

As our data are panel data, to test our hypothesis we selected a Prais-Winsten model (Prais and Winsten 1954, Beck and Katz 1995). This allows us to account for autocorrelation over the time period, which might be a very large determinant of how much aid countries are receiving. We feel that it is reasonable to assume that this year’s total aid may depend on how much a particular country received last year, or perhaps even how much other countries are receiving, and the Prais-Winsten model will help us control for this. For robustness, we run each model twice, first assuming the autocorrelation follows the traditional AR1 structure which assumes the autocorrelation may extend to all panels and then assuming the AR1 structure may be panel specific. Only the results from the regressions assuming AR1 autoregression are listed below, as this is the more stringent measure and produces less strong results. Results for all the regressions may be found in the appendix.

We test several different specifications, with different measures of our dependent and key independent variables for robustness. We measure our dependent variable in three ways: first in total dollars, then in a logarithmic scale of total dollars, and finally we measure the total number of projects each country receives.
As a control for the possible multicollinearity between Muslim countries and oil exports, we included the amount of oil exports from each country during the period. As controls, we include a dummy for colonial heritage, life expectancy, the number of telephone lines per thousand people, the infant mortality rate, the number of physicians per thousand people, the fertility rate, the GDP growth rate, the value of exports as a percentage of GNP, total trade as a percentage of GNP, public expenditure as a percentage of GDP, health expenditure as a percentage of GDP, primary school enrollment, immunizations, the illiteracy rate, population, GDP, daily caloric intake, and the availability of potable water.

Table 2 presents our results. They provide qualified support our hypothesis that Muslim countries receive more bilateral aid from European donors. According to our regressions, each extra percentage point increase in the Muslim population increases the amount of aid received by .54 percent, which is significant at the 5% level. Nations with Muslim majorities receive 35% more aid, ceteris paribus. However, when we include a control for a recipient’s colonial heritage, an extra percentage point increase in Muslim population leads to a .40 percent increase in the amount of aid. The effect is still significant, but reduced to the 10% level. When we use the Muslim-majority dummy with the colonial indicator, the effect becomes insignificant.

Additionally, oil exports were significant, but the coefficients were negative but small in each case, indicating that oil-exporting nations actually receive less aid. The Cold War dummy was significant in all four regressions. The coefficients suggest that the amount of aid significantly increases following the end of the Cold War, with post-war projects exceeding their Cold War counterparts by more than 70%.

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6 We obtained our oil data from the World Resource Institute’s *Energy Balances of Organization for Economic Cooperation and Development (OECD) Countries* dataset.
| Table 2: Effect of Islam on European Aid Allocations |
|---------------------------------|-------------------------------|-------------------------------|-------------------------------|-------------------------------|
|                                | (1) Ln(Euro. Aid)              | (2) Ln(Euro. Aid)              | (3) Ln(Euro. Aid)              | (4) Ln(Euro. Aid)              |
| Percent Muslim                 | 0.543** (0.22)                 | 0.350** (0.16)                 | 0.409* (0.25)                 | 0.237 (0.15)                  |
| Muslim majority (dummy)        | -0.00000802*** (0.0000012)    | -0.00000783*** (0.0000012)    | -0.00000779*** (0.0000012)    | -0.00000761*** (0.0000012)    |
| Oil Exports                    | 0.726*** (0.13)                | 0.736*** (0.13)                | 0.717*** (0.13)                | 0.725*** (0.13)                |
| Post Cold War                  | -0.0648*** (0.015)             | -0.0644*** (0.015)             | -0.0601*** (0.014)             | -0.0588*** (0.014)             |
| Colony                         | -0.00427*** (0.0015)           | -0.00438*** (0.0015)           | -0.00458*** (0.0014)           | -0.00473*** (0.0014)           |
| Life Expectancy                | 0.0106** (0.0044)              | 0.0102** (0.0044)              | 0.0113*** (0.0043)             | 0.0111** (0.0043)              |
| Phones per thousand            | -0.150 (0.100)                 | -0.146 (0.10)                  | -0.155 (0.099)                 | -0.152 (0.100)                 |
| Infant Mortality               | -0.159** (0.063)               | -0.151** (0.065)               | -0.170*** (0.062)              | -0.166*** (0.064)              |
| Physicians per thousand        | 0.0143*** (0.0052)             | 0.0139*** (0.0052)             | 0.0148*** (0.0052)             | 0.0146*** (0.0053)             |
| Fertility Rate                 | -0.0294*** (0.0076)            | -0.0294*** (0.0075)            | -0.0312*** (0.0078)            | -0.0314*** (0.0077)            |
| GDP growth                     | 0.00782* (0.0041)              | 0.00810** (0.0041)             | 0.00801* (0.0041)              | 0.00823** (0.0041)             |
| Exports as % of GNP            | 0.00369*** (0.00018)           | 0.0360*** (0.00018)            | 0.0360*** (0.00020)            | 0.0353*** (0.00019)            |
| Trade as % of GNP              | -0.00536 (0.051)               | -0.0144 (0.050)                | 0.00364 (0.051)                | -0.00175 (0.050)               |
| GDP per capita                 | 0.00636** (0.0028)             | 0.00576** (0.0028)             | 0.00625** (0.0028)             | 0.00574** (0.0028)             |
| Expenditures on Public Ed.     | 0.069*** (0.012)               | 0.0360*** (0.012)              | 0.0360*** (0.012)              | 0.0353*** (0.012)              |
| Health Expenditures            | -0.00536 (0.051)               | -0.0144 (0.050)                | 0.00364 (0.051)                | -0.00175 (0.050)               |
| Primary Schooling              | 0.00636** (0.0028)             | 0.00576** (0.0028)             | 0.00625** (0.0028)             | 0.00574** (0.0028)             |
| Immunization Rate--Diphtheria   | 0.00684*** (0.0026)            | 0.00693*** (0.0026)            | 0.00727*** (0.0026)            | 0.00741*** (0.0026)            |
| Illiteracy Rate                | 0.00786* (0.0041)              | 0.00958** (0.0042)             | 0.00886** (0.0041)             | 0.0104** (0.0041)              |
| Population                     | 1.32e-09*** (4.02e-10)         | 1.32e-09*** (4.04e-10)         | 1.22e-09*** (4.29e-10)         | 1.21e-09*** (4.22e-10)         |
| GDP                            | 0*** (0)                       | 0*** (0)                       | 0*** (0)                       | 0*** (0)                       |
| Calories                       | 0.510 (0.37)                   | 0.638* (0.36)                  | 0.638 (0.40)                   | 0.758** (0.36)                 |
| Potable Water                  | 0.00502 (0.0033)               | 0.00514 (0.0034)               | 0.00513 (0.0032)               | 0.00530 (0.0033)               |
| Constant                       | 19.38*** (1.29)                | 19.28*** (1.34)                | 18.90*** (1.19)                | 18.72*** (1.21)                |
| Observations                   | 1142                          | 1142                          | 1142                          | 1142                          |
| Number of countryid            | 84                            | 84                            | 84                            | 84                            |
| R-squared                      | 0.60                          | 0.60                          | 0.59                          | 0.59                          |
| R-squared                      | 0.60                          | 0.60                          | 0.59                          | 0.59                          |
Conclusions

Principle-agent theory explains why voters may choose to delegate the ability to make decisions, even important decisions, to government officials. Either not willing or not able to make each and every decisions for themselves, they choose an agent as a semi-plenipotentiary who is allowed to make many decisions at his or her own discretion. With this discretion, politicians will make decisions to hedge their prospects of reelection.

This research has explained that one area where policy may diverge from voter preference is in foreign aid. Although prior research has suggested that voters may prefer foreign aid by used as a means toward poverty reduction in the developing world, politicians see it as a tool to accomplish objectives they see important for their own reelection. Foreign aid can be a valuable way to exert influence on foreign governments to adopt policies favorable to the donor nation, such as policies regarding immigration control and anti-terrorism law enforcement. It may even still be used as a means of poverty reduction, but rather than in the nations that are most impoverished, it may go to the most impoverished strategic nation as a means both to engender growth and to gain influence.

Due to the Muslim world’s strategic importance to Europe, it receives disproportionately large aid flows, even when controlling for other factors such as the level of development and oil exports. We believe this to be clear evidence that bilateral European aid is, at least in part, used strategically.
References


